

Message Text

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TO AMEMBASSY TOKYO

C O N F I D E N T I A L STATE 091054

PASS ASST SECY KATZ

FOLLOWING REPEAT MEXICO 5744 ACTION STATE APR 7.

QUOTE C O N F I D E N T I A L MEXICO 5744

EO. 11652: GDS

TAGS: EFIN, ETRD, MX, ENRG

SUBJECT: GOM CONSIDERING BILATERAL AGREEMENT TO EXCHANGE

OIL AND GAS FOR U.S. GRAIN

REFS: (A) STATE 085781, (B) STATE 083152

1. SUMMARY: DISCUSSIONS WHICH THE ECONOFF HAS HAD IN THE LAST FEW DAYS WITH GOM OFFICIALS INDICATE THAT MEXICO IS SERIOUSLY CONSIDERING PROPOSING A BILATERAL TRADE AGREEMENT WITH THE UNITED STATES COVERING EXCHANGE OF OIL AND GAS IN RETURN FOR FOOD AND FEED GRAINS.
END SUMMARY.

2. SEVERAL WEEKS AGO IN REPLY TO A QUESTION FROM A MEMBER OF THE FEDERAL EXECUTIVE INSTITUTE DR. ERNESTO MARCOS, DIRECTOR GENERAL OF INDUSTRIAL DEVELOPMENT,
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SAID THAT THE GOM WAS CONSIDERING A BARTER ARRANGEMENT FOR SELLING MEXICAN OIL AND GAS. LIC. VLADIMIRO BRAILOVSKY, DIRECTOR GENERAL FOR INDUSTRIAL POLICY, HAS TOLD THE ECONOFF THAT IT WAS FALSE TO THINK THAT FOREIGN EXCHANGE EARNINGS FROM OIL EXPORTS WOULD BE NET. HE SAID THAT AT CURRENT TRENDS BY EARLY 1980'S MEXICAN FOOD IMPORTS COULD TAKE UP TO HALF THOSE

EARNINGS.

3. TWO DAYS AGO DR. MARIN MAYDEN, DIRECTOR GENERAL FOR ECONOMIC ANALYSIS IN THE MINISTRY OF TRADE, ASKED THE ECONOFF ABOUT WHETHER A BILATERAL TRADE AGREEMENT WOULD BE FEASIBLE BETWEEN THE U.S. AND MEXICO COVERING EXCHANGES OF MEXICAN GAS AND OIL FOR U.S. GRAIN. HE STRESSED THAT HE WAS SPEAKING PERSONALLY, NOT OFFICIALLY, BUT HE ASKED WHAT THE U.S. REACTION WOULD BE. HE SAW GREAT ADVANTAGES IN SUCH AN ARRANGEMENT FOR BOTH COUNTRIES. BOTH WOULD BE ASSURED OF LONG TERM MARKETS AND INCOME FROM THEIR EXPORTS. THIS WOULD FACILITATE PLANNING. U.S. GRAIN FARM ORGANIZATIONS WOULD HAVE A STRONG INTEREST IN THE MEXICAN MARKET AND TEND TO COUNTER INDUSTRIAL PROTECTIONISM IN THE U.S. OF COURSE SUCH AN AGREEMENT COULD NOT BE SOLD IN MEXICO UNLESS ITS FRUITS AND VEGETABLES HAD FREE ENTRY TO THE U.S. BUT, HE SAID, THIS SHOULD NOT BE DIFFICULT BECAUSE MEXICAN EXPORTS OF SUCH PRODUCTS COULD NEVER AMOUNT TO MORE THAN A SMALL FRACTION OF THE VALUE OF GRAIN MEXICO COULD USE.

4. YESTERDAY IN A CONVERSATION WITH THE ECONOFF COVERING OTHER TOPICS JOSE ANTONIO UGARTE, HEAD OF PRESIDENT LOPEZ PORTILLO'S PERSONAL ECONOMIC ADVISORY STAFF, CONFIRMED THAT THE GOM WAS CONSIDERING AN AGREEMENT COVERING EXCHANGE OF MEXICAN OIL FOR U.S. GRAIN.

5. COMMENT: WE STRONGLY SUSPECT THAT THE GOM OFFICIAL
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USE OF THE WORD "BARTER" IS MISLEADING, AND THAT WHAT THEY HAVE IN MIND ARE LONG TERM AGREEMENTS COVERING SALES OF THESE COMMODITIES AT GOING PRICES. THERE IS A STRONG IMPLICATION OF SECURITY OF SUPPLY FOR FUEL FOR THE U.S. AND FOOD FOR MEXICO. THE SUBJECT MAY BE BROUGHT UP DURING THE VISIT OF SECRETARY VANCE OR POSSIBLY EVEN DURING SUBSEQUENT VISIT OF AMBASSADOR WOLFF AND DEPUTY ASSISTANT SECRETARY BARRACLOUGH, TENTATIVELY SCHEDULED FOR MAY 11-12. THOMPSON
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